

Sector Project 2: Food & Beverage

(Porter's Five Forces Analysis)

- Bargaining Power of Buyers:

This broadly refers to the extent buyers are able to put pressure on the company, which is broadly a factor of the customer's ability to react to price changes. In the Food & Beverage sector, the bargaining power of buyers is very large and due to this, they can easily have great pressure on the company regarding the existing prices and rates. An industry with high bargaining power of buyers is one where buyers have the ability to choose from a variety of products offered by multiple companies. The high bargaining power of this sector is due to the low switching expense. Taking the example of noodles one can buy Maggi, Chings, TopRamen, Yippee, Patanjali, and many more. There are lots of companies that sell a variety of comparable items. Customers demand good quality at a reasonable price. So the companies in this sector have to struggle a lot and keep improving to keep their customers satisfied. So for this sector, we can say that the bargaining power of customers is very high and customer is the most important factor in this industry.

- Bargaining Power of Suppliers:

This broadly refers to the extent to suppliers are able to put pressure on the company, when charging for the raw materials or products that they give to it. We can say that the Food and Beverage sector has less bargaining power of suppliers in comparison to other sectors because the majority of the things are standardized. The company needs to fulfill some parameters and standards issued by various organizations and hence they are forced to buy standard products and raw materials so suppliers have to comply with the regulations of the organization and the price of the company they are offering their services. One can also deny this view and can state that bargaining power is not low as for example the vendors who supply meat, milk, cheese in the industry can still demand a greater price for good and standardized materials.

But in general, we can say that suppliers in this industry have less bargaining power.

- Rivalry among Existing Competitors:

As the factor suggests, an industry with high rivalry among existing competitors is one that is characterized by consistent price wars, high degrees of innovation increased marketing attempts, and service improvements. In this sector, there is

healthy competition. The competition is not limited to prices but also covers quality, variation, and customer satisfaction. So there is a race between these companies to capture the market and win more customers. We have many companies competing to increase their customer base like Unilever, Nestle, Dabur, Britannia, P&G, and many more.

This competitive nature of the sector plays a great role in the growth of the industry. It motivates the companies to come with new and innovative products for customers.

- **Threat of Substitutes Products:**

A substitute product nearly performs the same function as the industry's product and service but by different means. An industry where the degree of differentiation in products is low is one where the threat of substitutes is higher. In the Food and Beverage sector, there are substitutes easily available. Nearly every company offers the same services/products to their customers which leaves great room for substitution. Less differentiation leads to new innovations and new products which increases the chances for substitution. At the time there was a rumor that Nestle products are not safe and products were banned, the products got very easily substituted. Like Milk Power and Milk products of Nestle were taken over by AMUL. Maggi was replaced by Patanjali, Chings, and SunFeast Yippee noodles.

Hence the company always works its best and tries to provide new and standard products so that they do not let any substitute capture their market.

- **Threat of New Entrants:**

This simply means that industry where barriers to entry are low. Now, this can be viewed in 2 ways.

For the Food And Beverage sector, one can say that the Threat of New Entrants is very high because there are very few barriers to entry. One can open a food cafe or restaurant any time and if he/she has good experience, the business can be scaled up and can be a threat to already existing companies. Zomato which was a startup started by students of IIT Delhi, today has a market cap of nearly 1 Lakh crore.

Whereas looking from the other side, a new entrant cannot compete with a giant like Nestle which has a great network and infrastructure to deal with humungous demand. It becomes very tough for them to survive and gain a stable position in the market. So both the views are valid and justified. But to sum up one can say that the threat of new entrants is high enough in this sector.